

**SAN FRANCISCO UNIFIED SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

<u>Federal Communications Commission</u>	
Docket No. <u>04-191</u>	Exhibit No. <u>78-A</u>
Presented by <u>SFUSD</u>	
Disposition	Identified <u>6/20/05</u>
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Date <u>6/22/05</u>	

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

OF SAN FRANCISCO COUNTY

SAN FRANCISCO, CALIFORNIA

JUNE 30, 2004

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Superintendent

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
San Francisco Unified School District
San Francisco, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed by the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District, as of June 30, 2004, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information, such as management's discussion and analysis information on pages 3 through 8 and budgetary comparison information on pages 42 and 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The nonmajor governmental funds combining balance sheet and combining statement of revenues, expenditures and changes in fund balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Varrinck Trine Day + Co. LLP

San Jose, California
January 18, 2005

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

PROFILE OF THE DISTRICT

The San Francisco Unified School District (SFUSD) promotes on-going student achievement and school success and is served by an outstanding staff committed and dedicated to academic excellence for all students. School administrators are passionate, lifelong learners who believe in the value of quality public education and providing quality service for student success. The district is the fifth largest school district in California, and currently educates over 58,000 students who live in the 50 square mile area of the City and County of San Francisco. The San Francisco Unified School District was established in 1851. The District is governed by an elected Board of seven members. The District also administers the County Office of Education. The District and County Office of Education provide pre-Kindergarten, elementary and secondary education in the City and County of San Francisco. The District has also sponsored ten (10) active Charter Schools.

Delivering a wide variety of instructional and supportive services requires a large staff and a number of physical plants. San Francisco Unified School District currently has:

- 75 elementary schools and K-8 schools
- 18 middle schools
- 18 senior high schools (including two continuation schools and an independent study school)
- 1 adult education program
- 28 state-funded preschool sites

The majority of SFUSD's schools have designated attendance areas giving priority to students living within those attendance boundaries. The remainder of our schools are "alternative schools" with no designated attendance area. All SFUSD schools enroll students based on parental request and provide opportunities for parental choice in enrollment. San Francisco public high schools offer substantially different program offerings in addition to the foundation college preparatory curriculum, which provide for varied student interests in career preparation.

The ten active Charter Schools sponsored by the district are Creative Arts, Life Learning, Gateway High School, Leadership High School, Five Keys Academy, KIPP Bay View Academy, KIPP Bay Academy, City Arts and Technology High School, Metropolitan Arts and Technology High School and Cross Cultural (XCEL) Academy.

The District is a member of SPURR, Northern California Regional Excess Liability Fund (NCR), SAFER, and School Excess Liability Fund (SELF) joint power authorities (JPA's).

The priorities of the San Francisco Unified School District are articulated in Excellence for All, its five-year comprehensive plan for academic achievement, and reflect the objective that all students will have access to and will receive a high quality education. Each year, the District assesses its progress against its priorities, goals and objectives. The District's budget is also organized with the delivery of resources that will address goals and priorities that will foster success and academic excellence for all students.

The District's staff members share a commitment and dedication to enhancing programs that will create the foundation for all students to achieve success. Through the ongoing and expanding use of evaluation data, the SFUSD will continually reassess its efforts and the related allocation of resources in pursuit of academic excellence. In the current process of reevaluating the district's effort, it is also the District's goal to continue to close the gap and enhance programs that will help every student achieve his or her potential. The District's staff has been encouraged to maintain the teamwork and sense of community that is so crucial during our current period of on-going unpredictable financial resources and economic downturns.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

FINANCIAL HIGHLIGHTS

2004 RESULTS OF OPERATION

Unrestricted General Fund Results of Operations

During FY 2003-2004, the District's Unrestricted General Fund balance, including designated balances and adjusting for one-time prior period adjustments, decreased from \$15,423,520 to \$3,514,953. The District's designated and reserved balances equal \$10,865,258, leaving an undersigned balance of (\$7,350,308). The District, in June 2004, settled an outstanding legal dispute (see Note 3) and was awarded a \$32 million settlement. The District recognized one-half of the settlement proceeds as revenue in the 2003-04 fiscal year. The remaining \$16 million will be recognized in the 2004-05 fiscal year. Had the remaining \$16 million been recognized in the 2003-04 year, the District's unrestricted, undesignated ending fund balance would have been \$8,699,694.

Excluded from the current year General Fund financial results is a revenue limit adjustment of approximately \$10 million. The District has reached an agreement with the State of California to repay this amount over a ten-year period, without interest. The adjustment results from a change in the way the State's revenue limit form calculates the District's State Aid portion of the revenue limit.

General Fund Ending Balance and Reserves

The District's combined General Fund ending balance at June 30, 2004 (restricted plus unrestricted) is \$20,638,691. However, the District has restricted program fund balances of \$17,123,739. Those funds will largely be used for instructional activities, but their use is restricted for specific program activities, thus we cannot count these balances as part of our available, i.e., unrestricted reserves. In addition, we have legally reserved balances of \$541,258, and we have \$10,324,000 in Board Designated monies currently earmarked for the School of the Arts (SOTA). These monies are likewise also excluded from our unrestricted reserve balances.

The following comparison of revenue and expenditures focuses solely on our General Fund operations. Table 1 shows the year-to-year revenue comparisons and Table 2 shows the same comparison for expenditures.

Table 1

	2003	2004	Variance
Revenue limit sources	\$ 262,064,932	\$ 263,341,371	\$ 1,276,439
Federal sources	37,794,166	41,053,216	3,259,050
Other state sources	111,938,997	97,753,465	(14,185,532)
Other local sources	39,186,958	62,678,405	23,491,447
	<u>\$ 450,985,053</u>	<u>\$ 464,826,457</u>	<u>\$ 13,841,404</u>

The 2004 revenue limit number does not include the impact of the revenue limit adjustment previously noted above in the amount of approximately \$10 million. In reality, our revenue limit source revenue actually decreased by \$8.8 million in 2004 as compared to 2003. Continued budget pressures at the State level accounted for the drop in other State revenue. The increase in other local source revenue was impacted by the recognition of one-time proceeds from the settlement of litigation in the amount of approximately \$16 million.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Table 2

	2003	2004	Variance
Instruction	\$ 236,208,146	\$ 212,627,812	\$ (23,580,334)
Instruction related activities	70,365,059	71,725,976	1,360,917
Pupil Services	24,633,845	28,438,854	3,805,009
General administration	58,459,071	56,698,313	(1,760,758)
Plant services	38,216,656	39,654,997	1,438,341
Facility acquisition and construction	4,751,047	4,462,575	(288,472)
Ancillary services	1,950,728	1,786,951	(163,777)
Community services	14,164	14,568	404
Other (outgo)	35,245,061	45,235,854	9,990,793
Debt service	1,540,500	1,732,033	191,533
Transfers out	14,773,643	11,866,028	(2,907,615)
	<u>\$ 486,157,920</u>	<u>\$ 474,243,961</u>	<u>\$ (11,913,959)</u>

Our general fund expenditures decreased overall by \$11.9 million in 2004 as compared to 2003. The District made significant personnel cuts across the board and reduced funding from state categorical programs had a similar impact on the related expenditures for those programs, most of which are in instruction and instruction related activities. The decrease in staffing more than offset significant increases in health and welfare benefits. The increase in other outgo is primarily the result of Charter School transfers (\$2.3 million) and increased General Fund support of the County School Service Fund and Child Development Fund.

FY 2004-05 BUDGET

The FY 2004-05 Budget was developed reflecting the ongoing review and reduction, where appropriate, of central office budgets and the implementation of the Weighted Student Formula for school sites.

Since School Year 2002-03, the Weighted Student Formula (WSF) has been the District's primary method of allocating funds directly to schools. Instead of delivering resources in the form of staff through Full-Time Equivalent (FTE) allocations, as had previously been the case, resources are now allocated in denominations of dollars.

Funding levels of the WSF are based on student needs. A basic funding amount by grade level is provided for each student and supplemented by an additional amount if the student is an English Learner or comes from a low-socioeconomic household. In addition, budgetary decisions are made by the School Site Councils instead of centrally. This process of site-base budgeting allows schools to be more creative and responsive to their unique needs and encourages more parents and site staff to be involved in their school process of academic planning and budgeting.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

The District is currently investigating and negotiating plans to meet the future financial challenges that are certain to impact the District with a number of cost-cutting strategies, to include closure and consolidation of some schools, negotiating collective bargaining provisions to reduce fringe benefits costs, hiring freezes, reduction in staff, possible furloughs and reductions in all discretionary budgets. Additionally, the District is working with its Special Education and Child Development program managers to determine how spending levels in each program can be decreased. Together, these measures are estimated to generate in excess of \$11 million in savings.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial* statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial* statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary fund* statements offer financial information about the activities the district operates on a cost reimbursement basis, such as the self-insurance fund.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the district-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with comparisons of the District's General and County School Service Fund budgets, both the adopted and final version, with year end actuals.

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets may be an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base, its student enrollment data, the State's fiscal health and the condition of school buildings and other facilities.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the District-wide statements and the Fund financial statements.
- *Proprietary funds* - Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. Internal service funds (one kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the self-insurance fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The district's combined governmental funds net assets at June 30, 2004 totaled \$397.5 million. Of this amount, \$392.9 million is the net investment in fixed assets; \$27.5 million is restricted for various purposes, leaving an unrestricted net deficit of \$22,955,084. See note 9 to the financial statements for a reconciliation of this deficit balance with the unrestricted deficit shown in the General Fund. The net increase in net assets in fiscal year 2003-04 was \$6.6 million as of June 30, 2004 net of prior period adjustments of \$3.5 million. Bond and lease proceeds received into the Building Fund, aggregating approximately \$36 million, were the main reason why our net assets increased on a district-wide basis.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the close of the year ended June 30, 2004, the District's fixed assets totaled \$512.3 million. Accumulated depreciation was \$101.1 million at year end. Depreciation expense for the year totaled \$14.5 million. Net book value (the amount of total assets after applying depreciation) increased by \$9.9 million to \$411.2 million.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

The District excludes from its fixed assets any individual capital acquisitions less than \$25,000. The majority of the recorded historical cost of assets relates to the buildings and improvements of physical school sites.

The historical cost of land owned by the District is not considered significant and is excluded from total fixed assets. Likewise, the original historical construction cost of most school sites dating back to the date the school was first opened have not been included as such costs would have been fully depreciated by the beginning year date of July 1, 2001.

Long-Term Debt

The District's long-term debt obligations had a beginning balance of \$60,107,124. Additions were \$11,068,336 and deletions were \$3,621,911. At June 30, 2004, the ending balance was \$67,553,549. The majority of the District's long-term debt is comprised of Certificates of Participation (\$18.9 million) and the energy retrofit capital lease (\$32.0 million). The annual debt service requirement on these two obligations approximates \$3.4 million and is funded from the District's General Fund. General Obligation Bonds are an obligation of the City and County of San Francisco, thus they are not reflected on the District's books even though the District uses the proceeds to fund construction projects of the District.

FACTORS BEARING ON THE DISTRICT'S FUTURE

In addition to the Revenue Limit income sources, the District also receives approximately \$145 million of other program funding from the State. Ongoing State cuts in budgets available to schools continue to increase pressure on school districts to take cost-saving measures to ensure financial solvency. The District is currently planning and negotiating strategies for a series of budget cuts for the current and subsequent fiscal years. Large State deficits will possibly continue to constrain the amount of state revenue received by the District. The District has already made some budgetary cuts in 2005 and expects to make additional cuts unless the state's funding of K-12 education substantially improves.

The District has been on a steady course of continuous improvement in academic achievement, closing the achievement gap, improving its facilities, and meeting the priorities of the Board of Education and the Community. It is the District's goal to ensure that all children continue to receive the educational benefits and a positive foundation necessary for them to achieve academic success.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to assist interested parties in understanding the District's sources and uses of resources. If you have questions about this report or need additional financial information, please contact Joseph Grazioli, Chief Financial Officer of the San Francisco Unified School District, 135 Van Ness Avenue, San Francisco, California 94102, (415) 241-6542.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2004

		Governmental Activities
Assets		
Cash and cash equivalents	\$	3,036,746
Investments		174,684,875
Receivables		71,902,935
Stores inventories		645,359
Capital assets		512,307,096
Less: Accumulated depreciation		(101,135,728)
Total assets		661,441,283
Liabilities		
Overdrafts		5,703,129
Accounts payable		45,202,530
Deferred revenue		38,316,169
Claim liabilities		30,678,000
Current loans		76,504,110
Current portion of long-term obligations		8,223,541
Noncurrent portion of long-term obligations		59,330,008
Total liabilities		263,957,487
Net Assets		
Invested in capital assets, net of related debt		392,965,443
Restricted for:		
Legally restricted		17,664,997
Capital projects		3,860,300
Special revenues		5,948,140
Unrestricted		(22,955,084)
Total net assets	\$	397,483,796

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2004

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,026,969	\$ -	\$ -	\$ 11,120	\$ 2,038,089
Investments	66,551,316	17,722,406	47,249,952	33,384,998	164,908,672
Receivables	59,645,121	4,775,539	84,326	5,613,654	70,118,640
Due from other funds	-	3,129,050	800,000	-	3,929,050
Stores inventories	540,758	-	-	104,601	645,359
Total assets	\$128,764,164	\$ 25,626,995	\$ 48,134,278	\$ 39,114,373	\$241,639,810
LIABILITIES AND FUND BALANCES					
Liabilities:					
Overdrafts	\$ -	\$ -	\$ -	\$ 5,703,129	\$ 5,703,129
Accounts payable	10,791,270	25,529,989	3,655,838	3,746,080	43,723,177
Due to other funds	3,129,050	-	10,000,000	800,000	13,929,050
Other current liabilities	76,504,110	-	-	-	76,504,110
Deferred revenue	17,701,043	97,006	1,500,000	19,018,120	38,316,169
Total liabilities	108,125,473	25,626,995	15,155,838	29,267,329	178,175,635
Fund Balances:					
Reserved for:					
Restricted programs	17,123,739	-	-	-	17,123,739
Other reservations	541,258	-	-	108,601	649,859
Unreserved:					
Designated	10,324,000	-	-	-	10,324,000
Undesignated, reported in:					
General fund (See note 3)	(7,350,306)	-	-	-	(7,350,306)
Special revenue funds	-	-	-	5,839,539	5,839,539
Debt service funds	-	-	-	38,604	38,604
Capital projects funds	-	-	32,978,440	3,860,300	36,838,740
Total fund balance	20,638,691	-	32,978,440	9,847,044	63,464,175
Total liabilities and fund balances	\$128,764,164	\$ 25,626,995	\$ 48,134,278	\$ 39,114,373	\$241,639,810

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds		\$ 63,464,175
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 512,307,096	
Accumulated depreciation is	<u>(101,135,728)</u>	
		411,171,368
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as receivable and payment received in the current year reduces the receivable amount.		1,756,381
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(1,341,610)
An internal service fund is used by the District's management to charge the costs of the worker's compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		(10,012,969)
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.		
Long-term liabilities at year end consist of:		
Certificates of participation	18,885,000	
Capital leases payable	32,014,162	
State school building loan payable	285,203	
Compensated absences (vacations)	6,317,707	
Excess revenue limit transfers	<u>10,051,477</u>	
		<u>(67,553,549)</u>
Total net assets-governmental activities		<u>\$ 397,483,796</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	County School Service Fund	Building Fund	Nonmajor Government Funds	Total Government Funds
REVENUES					
Revenue limit sources	\$ 263,341,371	\$ 13,658,710	\$ -	\$ -	\$ 277,000,081
Federal sources	41,053,216	12,352,184	-	29,838,217	83,243,617
Other state sources	97,753,465	41,346,678	-	16,663,524	155,763,667
Other local sources	62,678,405	36,177,991	8,435,834	8,870,558	116,162,788
Total Revenues	464,826,457	103,535,563	8,435,834	55,372,299	632,170,153
EXPENDITURES					
Current					
Instruction	212,627,812	68,433,439	-	22,219,716	303,280,967
Instruction related activities:					
Supervision of instruction	39,060,628	3,460,962	-	283,950	42,805,540
Instructional library and technology	2,766,199	-	-	-	2,766,199
School site administration	29,899,149	1,222,696	-	3,416,630	34,538,475
Pupil Services:					
Home-to school transportation	9,090,077	11,052,236	-	-	20,142,313
Food services	62,812	-	-	16,578,417	16,641,229
All other pupil services	19,285,965	13,844,532	-	308,186	33,438,683
General administration:					
Data processing	6,851,870	-	-	-	6,851,870
All other general administration	49,846,443	1,825,137	-	6,200,110	57,871,690
Plant services	39,654,997	-	-	2,810,498	42,465,495
Facility acquisition and construction	4,462,575	-	13,980,320	11,655,133	30,098,028
Ancillary services	1,786,951	79,797	-	-	1,866,748
Community services	14,568	-	-	-	14,568
Other (outgo)	45,235,854	-	-	2,287,907	47,523,761
Debt service					
Principal	219,813	-	-	3,402,098	3,621,911
Interest and other	1,512,220	-	-	2,772,052	4,284,272
Total Expenditures	462,377,933	99,918,799	13,980,320	71,934,697	648,211,749
Excess (deficiency) of revenues over expenditures	2,448,524	3,616,764	(5,544,486)	(16,562,398)	(16,041,596)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	991,551	-	10,874,477	11,866,028
Other sources	-	-	36,858,532	-	36,858,532
Transfers out	(11,866,028)	-	-	-	(11,866,028)
Other uses	-	(4,999,186)	-	-	(4,999,186)
Net Financing Sources (Uses)	(11,866,028)	(4,007,635)	36,858,532	10,874,477	31,859,346
NET CHANGE IN FUND BALANCES	(9,417,504)	(390,871)	31,314,046	(5,687,921)	15,817,750
Fund Balance - Beginning	31,943,536	-	864,394	18,323,499	51,131,429
Prior Period Adjustments	(1,887,341)	390,871	800,000	(2,788,534)	(3,485,004)
Fund Balance - Ending	\$ 20,638,691	\$ -	\$ 32,978,440	\$ 9,847,044	\$ 63,464,175

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Total net change in fund balances - governmental funds		\$ 15,817,750
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities those costs are capitalized in the statement of net assets as property and equipment and this cost is allocated over the estimated useful life of the asset as depreciation expense in the statement of activities. This is the amount by which capitalized capital outlays exceed depreciation in the current		
Capitalized capital outlays	\$ 24,368,521	
Depreciation expense	(14,473,938)	9,894,583
Repayment of Capital Leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		1,029,573
In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$1,002,679		(1,002,679)
Repayment of Certificates of Participation principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		2,420,000
Repayment of State School Building Loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		158,158
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as receivable and payment received in the current year reduces the receivable amount.		1,756,381
The excess revenue limit received during the year was recorded as revenue in the governmental funds, but was negotiated with state to pay back in installment starting fiscal year 2005-2006.		(10,051,477)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The additional interest expense reported in the statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds is the result of this difference.		50,257
An internal service fund is used by the District's management to charge the costs of the employment insurance program to the individual funds. The net loss of the internal service fund is not reported in the governmental funds, but is reported in the statement of activities.		(10,012,969)
Increase in net assets of governmental activities		<u><u>\$ 10,059,577</u></u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities: Internal Service Fund
ASSETS	
Current assets:	
Cash	\$ 998,657
Investments	9,776,203
Receivables	27,914
Due from other funds	10,000,000
Total current assets	20,802,774
 LIABILITIES	
Current liabilities:	
Accounts payable	137,743
Claim liability	30,678,000
Total current liabilities	30,815,743
 NET ASSETS	 \$ (10,012,969)

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Activities: Internal Service Fund
Operating revenues:	
Interfund premiums	\$ 13,600,804
Total operating revenues	<u>13,600,804</u>
Operating expenses:	
Insurance claims and other	23,925,715
Total operating expenses	<u>23,925,715</u>
Operating loss	(10,324,911)
Nonoperating revenues:	
Interest income	311,942
Net assets - End of year	<u>\$ (10,012,969)</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 3,742,429
Cash payments for insurance claims	(13,787,080)
Cash payments to suppliers for goods and services	(3,949)
Net cash used in operating activities	<u>(10,048,600)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>384,736</u>
Net decrease in cash and cash equivalents	(9,663,864)
Cash and cash equivalents - Beginning of year	20,438,724
Cash and cash equivalents - End of year	<u>\$ 10,774,860</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating income	\$ (10,324,911)
Decrease in receivables	141,625
Increase in due from other fund	(10,000,000)
Decrease in accrued liabilities	10,134,686
Net cash used in operating activities	<u>\$ (10,048,600)</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004

	Payroll Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,543,779
Investments	8,209,265	-
Receivables	103.642	-
Total assets	\$ 8,312,907	\$ 1,543,779
LIABILITIES		
Salaries payable	\$ 8,312,907	\$ -
Due to student groups	-	1,543,779
Total liabilities	\$ 8,312,907	\$ 1,543,779

The accompanying notes are an integral part of these financial statements.